

Message Text

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61

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 OMB-01 ABF-01 FSE-00 PA-03 PRS-01 USIA-15

RSR-01 /131 W

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R 101825Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3259

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

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C O R R E C T E D C O P Y - T E X T P A R A N B R E D T H R E E

DEPARTMENT FOR FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING AUGUST 10

BEGIN SUMMARY: STERLING REMAINED QUITE STABLE THIS

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WEEK AGAINST MAJOR CURRENCIES ALTHOUGH IT MOVED DOWN

FAIRLY SHARPLY AGAINST THE DOLLAR ON THURSDAY, LOSING 165 POINTS AND CLOSING AT \$2.4820. STERLING'S TRADE WEIGHTED DEVALUATION RANGED BETWEEN 17.56 PERCENT (AUGUST 7) AND 17.87 PERCENT (AUGUST 9) THIS WEEK. GOLD MOVED DOWN ALL WEEK BUT DROPPED SHARPLY ON THURSDAY, CLOSING AT \$110.50. INTEREST RATES HAVE BEEN RISING IN THE MONEY MARKETS WITH A POSSIBILITY THAT THE BASE LENDING RATE MAY BE RAISED AGAIN FROM ITS PRESENT LEVEL OF 10 PERCENT. RETAIL SALES ROSE IN JUNE AFTER A DECLINE DURING APRIL AND MAY. HIRE PURCHASE AND OTHER INSTALLMENT CREDIT BUSINESS ALSO RECOVERED SOMEWHAT. LENDING BY THE CLEARING BANKS AND DEPOSITS ROSE SHARPLY IN JULY. WHILE THE FINANCIAL TIMES MONTHLY SURVEY OF BUSINESS OPINION SHOWS THAT THE PACE OF INDUSTRIAL EXPANSION IS BEING INCREASINGLY LIMITED BY SHORTAGES OF MANPOWER AND PLANT CAPACITY, THE TOP FIFTY MEMBER-COMPANIES OF THE CBI PLAN TO INCREASE INVESTMENT BY 27 PERCENT. DISCUSSIONS ON THE FUTURE OF HONG KONG'S STERLING BALANCES HAVE BEGUN IN LONDON. END SUMMARY

1. STERLING HAS DROPPED A TOTAL OF 330 POINTS AGAINST THE DOLLAR SINCE LAST THURSDAY, FROM \$2.5150 (AUGUST 2) TO \$2.4820 (AUGUST 9) WITH THE LARGEST FALL OF 165 POINTS COMING ON THURSDAY (AUGUST 9). THE WEIGHTED DEPRECIATION FROM DECEMBER 1971 LEVELS WIDENED TO 17.87 PERCENT, THIS BEING THE HIGH FOR THE WEEK, BUT WELL BELOW LEVELS OF AROUND 19 PERCENT SEVERAL WEEKS AGO. STERLING IS REPORTED TO HAVE HAD AN ACTIVE DAY IN THE FOREIGN EXCHANGE MARKET ON THURSDAY, BUT THE SETBACK WAS SEEN MORE AS A REFLECTION OF THE STRENGTH OF THE DOLLAR, RATHER THAN AS WEAKNESS OF THE POUND. THE PRICE OF GOLD FELL AS LOW AS \$100-\$103 ON THURSDAY MORNING BUT CLOSED AT \$110.50. THIS WAS A NET FALL OF \$3.00 ON WEDNESDAY'S CLOSE AND A FALL OF \$6.00 ON LAST THURSDAY'S CLOSE. THE PRESS REPORTS THAT THE SHARP FALL REFLECTED INVESTMENT SELLING, POSSIBLY ASSOCIATED WITH HIGH INTEREST RATES INTERNATIONALLY.

2. CONDITIONS IN THE DOMESTIC LONDON MONEY MARKET AND THE GILT-EDGED (GOVERNMENT SECURITIES) MARKET HAVE BEEN QUITE UNCLASSIFIED

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CONFUSED AND HECTIC IN RECENT DAYS. SHORT-TERM RATES HAVE CONTINUED TO CLIMB TO NEW PEAKS. FOR EXAMPLE, THE COST OF ONE-MONTH FUNDS ON THE INTER-BANK MARKET INCREASED BY 12-1/2 TO 14-1/4 PERCENT. WITH SHORT-TERM MARKET RATES NOW WELL OVER 12 PERCENT, SOME BIG BANKS ARE REPORTING A RENEWED SIGNIFICANT RISE IN BORROWING BY BIG CUSTOMERS TO TAKE ADVANTAGE OF "ARBITRAGE"

OPERATIONS-I.E. THE REDEPLOYMENT OF THEIR OVERDRAFTS ON THE MARKETS AT A PROFIT. IF THIS CONTINUES, IT COULD THREATEN A FURTHER RISE IN BANK LENDING RATES.

3. RETAIL SALES MOVED UP RAPIDLY IN JUNE FROM THEIR SHARPLY REDUCED POST-VAT LEVELS IN APRIL AND MAY. THE OFFICIAL VOLUME INDEX ROSE TO 114.8 IN JUNE (S.A. 1966 100) FROM 110.7 IN MAY AND 111.1 IN APRIL. AT THE HEIGHT OF THE PRE-VAT SPENDING BOOM IN MARCH, THE INDEX REACHSM A PEAK OF 119.4. FIGURES FOR THE FIRST SIX MONTHS OF 1973 INDICATE THAT THE GROWTH IN RETAIL SALES HAS BEEN BASICALLY FLAT, WITH PEAKS AND TROUGHS CAUSED BY THE INTRODUCTION OF VAT. SINCE RETAIL SALES ACCOUNT FOR ABOUT HALF OF TOTAL CONSUMER SPENDING, THE BASIC SLOWING OF GROWTH IN RETAIL SALES INDICATES THERE HAS BEEN SOME SLACKENING IN THE GROWTH OF CONSUMER.

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